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D12

PAGE:0379

INQUIRE=DOC18D  
ITEM NO=00381819

ENVELOPE

CDSN = LGX494 MCN = 92190/30792 TOR = 921901829  
PTTCZYUW RUEKJCS4750 1901830-CCCC--RUEALGX.  
ZNY CCCCC

HEADER

P 081830Z JUL 92  
FM JOINT STAFF WASHINGTON DC  
INFO RUEADWD/OCSA WASHINGTON DC  
RUEAHQA/CSAF WASHINGTON DC  
RUCGDEF/NATS PENTAGON WASHINGTON DC  
RUEADWD/PTC WASH DC  
RUFGAID/USEUCOM AIDES VAIHINGEN GM  
RHDLCNE/CINCUSNAVEUR LONDON UK//N2/N22//  
RHCGSRB/COMUSARCENT FT MCPHERSON GA//AFRD-DSO//  
RUEOACC/CDRPSYOPGP FT BRAGG NC//AORC-POG-SB//  
RUWSMXI/AMC INTEL CEN SCOTT AFB IL//IN//  
RUCJACC/USCINCCENT MACDILL AFB FL//CARA//  
RUCQVAB/USCINCSOC INTEL OPS CEN MACDILL AFB FL  
RUEOFAA/COMJSOC FT BRAGG NC//J2//  
RULKQAN/MARCORINTCEN QUANTICO VA  
RUSNNOA/USCINCEUR VAIHINGEN GM  
RUEALGX/SAFE

P 081609Z JUL 92

FM AMEMBASSY RIYADH  
TO RUEHC/SECSTATE WASHDC PRIORITY  
INFO RUEHQM/GCC COLLECTIVE  
RUFHLD/AMEMBASSY LONDON 5105  
RUEATRS/TREASURY WASHDC

BT

CONTROLS

C O N F I D E N T I A L SECTION 01 OF 02 RIYADH 05034

E.O. 12356: DECL: OADR

/\*\*\*\*\* THIS IS A COMBINED MESSAGE \*\*\*\*\*/

BODY

TAGS: EFIN, SA

SUBJECT: BCCI BURSTS THE SAUDI BUBBLE

REF: RIYADH 4545

1. (CONFIDENTIAL - ENTIRE TEXT).

2. SUMMARY: THE BCCI RELATED INDICTMENT AND RESIGNATION OF SHEIKH KHALID BIN MAHFOUZ, CHIEF OPERATING OFFICER OF THE KINGDOM'S LARGEST BANK, HAVE PROMPTED A RAPID AND COMPLETE EVAPORATION OF SMUGNESS WITH WHICH SAUDI OFFICIALS PREVIOUSLY VIEWED THE BCCI DISASTER. DESPITE A STRONG EMOTIONAL REACTION, HOWEVER, SAUDI BANKERS ARE

DEPARTMENT OF STATE

( ) RELEASE ( ) DECLASSIFY  
(X) EXCISE (X) DECLASSIFY  
( ) DENY IN PART  
( ) DELETE Non-Responsive Info  
FOIA Exemptions 131  
RA Exemptions 7612

IS/FPC/CDR

MR Cases Only:  
EO Citations

TS author

( ) CLASSIFY ( ) S or ( ) C C  
( ) DOWNGRADE TS to ( ) S or ( ) C O

CONFIDENTIAL

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PAGE:0380

CLAIMING "BUSINESS AS USUAL," A CLAIM THAT SEEMS TO BE UNDERScoreD BY A NON-REACTION OF BANK STOCK PRICES. THE PRIMARY CONCERN THROUGHOUT THE KINGDOM'S FINANCIAL SYSTEM RIGHT NOW IS IMAGE--HOW WILL BIN MAHFOUZ'S WOES AFFECT THE VIEWS OF FOREIGN BANKERS WHO DO BUSINESS HERE? END SUMMARY

3. THE INDICTMENT AND RESIGNATION OF SHEIKH KHALID BIN MAHFOUZ, DEPUTY DIRECTOR GENERAL AND CHIEF OPERATING OFFICER OF THE NATIONAL COMMERCIAL BANK (NCB), HAVE SHOVED THE BCCI FIASCO INTO CENTER COURT OF THE SAUDI FINANCIAL SYSTEM.

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ANGST NOW ABOUNDS. OTHER BCCI WARNING SHOTS HAD ALREADY LANDED IN THE KINGDOM (SEE REFTTEL), BUT THE EARLIER SCARES PALE IN COMPARISON TO THE GLOOM BIN MAHFOUZ'S PROBLEMS SPARKED. THE SHEIKH NOT ONLY HEADED THE KINGDOM'S LARGEST BANK; HE ALSO IS FRIEND TO THE KING AND--SOME HERE CLAIM--THE ROYAL FAMILY'S BANKER.

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SOME VIEWS FROM THE INSIDE  
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NCBERS WHO HAVE WORKED CLOSELY WITH THE SHEIKH IN RECENT YEARS ARE CONVINCED THAT HE IS INNOCENT OF BCCI-RELATED WRONGDOING, AND WILL BE VINDICATED. THE SHEIKH APPARENTLY PLANS TO COUNTER THE NEW YORK INDICTMENT HEAD ON, ALTHOUGH HIS LAWYERS HAVE WARNED SOME WITHIN THE BANK THAT FEW HAVE THE STAMINA TO BOTH ENTER AND LEAVE THE U.S. LEGAL SYSTEM WITH A STRONG WILL.

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NCB CUSTOMERS APPARENTLY HAVE SOME DOUBTS. MANY VIEWED THE SHEIKH'S QUICK RESIGNATION AS AN INDICATION OF GUILT, AND NCB OFFICIAL ARE NOW WORKING INTENTLY TO CONVINCE THEM OTHERWISE. EMBASSY HAS NOT HEARD ANY REPORTS OF THIS VIEW TRANSLATING INTO ACCOUNT CLOSINGS.

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PAGE:0381

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7. NCB MAY SHIFT ITS FOCUS SOMEWHAT IN THE POST-KHALID ERA. MOHAMMED BIN MAHFOUZ, KHALID'S BROTHER AND HIS CURRENT REPLACEMENT AT THE BANK, HAS BANKING INTERESTS THAT DIFFER SIGNIFICANTLY FROM KHALID'S. FOR STARTERS, KHALID WAS INTRIGUED BY FINANCIAL OPPORTUNITIES OUTSIDE THE KINGDOM, WHILE MOHAMMED HAS PREFERRED A DOMESTIC FOCUS.  
KHALID P

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8. THE BOTTOM LINE FOR MANY NCB BANKERS IS THAT ALTHOUGH KHALID BIN MAHFOUZ'S BCCI PROBLEMS HAVE CREATED A FULLBLOWN CRISIS FOR THE BANK RIGHT NOW, THE CRISIS WILL SUBSIDE. SOME BELIEVE THE CURRENT TROUBLE WILL EXPEDITE LONG NEEDED CHANGES THAT WILL IMPROVE THE BANK.

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OTHER BANKERS FRET WHILE THE STOCK MARKET FAILS TO NOTICE  
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9. BANKERS WITHIN THE KINGDOM

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DO NOT  
SUSPECT THAT IT WILL HAVE A SIGNIFICANT IMPACT ON DOMESTIC OPERATIONS, BUT THEY ALL FEAR IT MAY SERIOUSLY DAMAGE THE FOREIGN IMAGE OF SAUDI BANKING. A SPECIFIC CONCERN IS THAT SOME BANKS OUTSIDE THE KINGDOM THAT CORRESPOND WITH SAUDI BANKS WILL DECIDE TO END THEIR BUSINESS RELATIONSHIP.

10. THE SAUDI ARABIAN MONETARY AGENCY (SAMA) IS INTENSELY WORRIED ABOUT BIN MAHFOUZ'S TOLL ON THE SAUDI FINANCIAL SYSTEM'S IMAGE.

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ONLY A RIPPLE FOR NOW  
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PAGE:0382

11. THE GOOD NEWS IS THAT BIN MAHFOUZ'S BCCI WOES HAVE NOT YET TAKEN MUCH OF A TOLL ON THE OVERALL FINANCIAL SYSTEM HERE. THE PRICES OF SAUDI BANK SHARES STOCKS, AS ONE INDICATOR, APPEAR UNAFFECTED. AN EMBASSY COMPARISON OF STOCK PRICES OF 10 BANKS WHOSE SHARES ARE TRADED PUBLICLY SHOW NO CLEAR UPWARD OR DOWNWARD TREND DURING THE JUNE 29 THROUGH JULY 6 (MOST RECENT DATA) PERIOD. AN INDEX OF AVERAGE SHARE PRICES FOR THESE 10 BANKS SHOWS A 1.65 PERCENT DECLINE DURING THIS TIME FRAME.

12. ONE SINISTER INTERPRETATION OF THE NON-REACTION OF BANK STOCKS IS THAT SAMA, WHICH RELEASES THE SHARE PRICES, IS HIDING SOME SLIDING. ANOTHER INTERPRETATION IS THAT FOLKS HERE HAVE NOT LOST CONFIDENCE IN THE TYPICALLY CLEAN AND WELL-REGULATED SAUDI BANKING SYSTEM SIMPLY BECAUSE ONE BANKER MAY HAVE GONE BAD. EMBASSY IS BANKING ON THE LATTER INTERPRETATION FOR NOW.

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MORE TO COME  
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13. THE BIN MAHFOUZ-BCCI STORY PROMISES TO WIND ON FOR SEVERAL MORE CHAPTERS. THE MISSION HERE WILL CONTINUE TO SEARCH FOR SIGNS OF ITS DOMESTIC IMPACT, WHICH CURRENTLY APPEARS MIXED AND RELATIVELY MILD. ONE SIGN OF TROUBLE WOULD BE A REVERSAL OF THE SIGNIFICANT CAPITAL INFLOW THAT HAS OCCURRED SINCE THE END OF THE GULF CRISIS. FOR NOW, IT APPEARS THAT THE OPTIMISM MAY BE WELL-FOUNDED. FREEMAN

ADMIN  
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